



# Canadian Securities Regulation Regime Transition Office

## Annual Report 2020-2021



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN  
EN VALEURS MOBILIÈRES

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July 31, 2021

The Honourable Chrystia Freeland  
Deputy Prime Minister and Minister of Finance  
Department of Finance  
90 Elgin Street  
Ottawa, ON K1A 0G5

Dear Minister,

We are pleased to submit to you the Annual Report of the Canadian Securities Regulation Regime Transition Office (Transition Office) for the fiscal year ended March 31, 2021.

The Transition Office is focused on building capacity to support administration of the systemic risk mandate under the proposed *Capital Markets Stability Act* (CMSA). Our work is sufficiently advanced to provide for initial administration of the CMSA's systemic risk provisions; however, there are years of work ahead to fully build this capacity. The Transition Office also provides support to the Government of Canada on the proposed Cooperative Capital Markets Regulatory System, and on capital markets policy matters in other areas of federal interest.

The 2008 Global Financial Crisis and the COVID-related market stresses in early 2020 demonstrated how capital markets can be a source or vector for systemic risk, which threatens the incomes, savings, and jobs of Canadians. Administration of the CMSA would serve as part of a broader effort to strengthen the resilience of Canada's financial system and economy.

Federal Budget 2021 included proposed additional Transition Office funding of \$12 million. The House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, the *Budget Implementation Act 2021, No. 1*. A government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office expects to be able to operate until March 2022 using existing funding but, if no additional funding is provided in 2021-2022, would have to begin to wind down operations at that time.

Our strong team of dedicated staff are committed to enhancing the stability and integrity of Canada's capital markets. This is our core objective as we work towards the implementation of the CMSA. We appreciate your continued support.

Yours sincerely,



Douglas M. Hyndman  
Chair and Chief Executive Officer

## OVERVIEW

The Canadian Securities Regulation Regime Transition Office (Transition Office) was established by the Government of Canada to lead and manage the transition to a Canadian securities regulatory regime and a Canadian securities regulatory authority. We support the Government of Canada on matters related to capital markets, including the proposed federal *Capital Markets Stability Act* (CMSA) and federal participation in the proposed Cooperative Capital Markets Regulatory System (Cooperative System).

Canada's Parliament has a role in securities regulation regarding matters of genuine national importance and scope, including managing systemic risk related to Canada's capital markets and protecting the integrity of those capital markets through the deterrence and punishment of criminal conduct. The proposed CMSA would help strengthen the resilience of Canada's capital markets, financial system, and economy. The CMSA would provide powers to detect, monitor and manage systemic risks related to Canada's capital markets. It would also enable improved enforcement against criminal activity in our markets, better protect investors, and improve confidence in market integrity. The CMSA would apply throughout Canada and be administered in collaboration with the provinces and territories.

The Government of Canada has been pursuing the CMSA through the Cooperative System since 2013. The Cooperative System would see capital markets regulation for participating provinces and territories being administered along with the CMSA in a single regulatory authority. The governments of British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, Yukon, and Canada have agreed to join the Cooperative System (Participating Jurisdictions).

Work to develop the Cooperative System legislation is complex and time consuming. The work has been delayed as the participating governments took action to respond to the COVID-19 pandemic and prepare for economic recovery, as well as implementing reforms to provincial securities legislation. The Government of Canada remains committed to the Cooperative System initiative; however, the CMSA is a distinct priority.

The Transition Office is focused primarily on implementation of the national information collection and systemic risk provisions of the CMSA. We are building capacity to address priority data requirements and prepare for the administration of the CMSA systemic risk mandate, either as part of the Cooperative System or by an interim federal authority operating in advance of the launch of the Cooperative System. We also support the government on other aspects of Cooperative System implementation, and provide capital markets policy advice in other areas of federal interest.

## OUR TEAM

The Transition Office is headed by a Management Team and supported by staff in our Vancouver and Toronto offices.

### MANAGEMENT TEAM

#### **Douglas M. Hyndman – *Chair and Chief Executive Officer***

Mr. Hyndman was appointed Chair and CEO of the Transition Office in 2009. Prior to that, he had served as Chair of the British Columbia Securities Commission. In that position, he played an active role in the Canadian Securities Administrators (CSA), the association of the provincial and territorial securities regulators. From 1995 to 2003, Mr. Hyndman was Chair of the CSA and from 2005 to 2009 he chaired the CSA's Passport Steering Committee.

#### **Peter Grant – *Chief, Operations and Systemic Risk***

Prior to joining the Transition Office in 2009, Mr. Grant was the Chief Information Officer at the British Columbia Securities Commission. He has also worked for the Vancouver Stock Exchange, the Canadian Venture Exchange and the TRIUMF subatomic nuclear particle physics research facility.

#### **Leigh-Anne Mercier – *Chief Legal Officer***

Ms. Mercier joined the Transition Office in 2009. Prior to that she was the Special Advisor to the Chair at the British Columbia Securities Commission, where she held various legal positions of increasing responsibility from 1998 to 2009. Ms. Mercier also worked for the Manitoba Securities Commission and Thompson Dorfman Sweatman.

#### **Jay Whitwham – *Chief, Finance and Administration***

Prior to joining the Transition Office in 2010, Mr. Whitwham was a professional advisor providing corporate finance services to small and medium-sized enterprises requiring expertise in the areas of strategy, financing, M&A and restructuring. He previously held CFO and senior financial roles in manufacturing and technology businesses, including a TSX-listed pulp and paper company. Mr. Whitwham is a member of the Chartered Professional Accountants of British Columbia.

### SUPPLEMENTARY EXPERTISE

We retain the services of Dwight Willett as Implementation Lead assisting the Implementation Team of senior government officials and the Transition Committee of executives from the regulators of the Participating Jurisdictions, on matters related to Cooperative System integration. Mr. Willett brings expertise in major program oversight and change management.

## REPORT ON ACTIVITIES

The Transition Office maintains a strong base of capital markets regulatory knowledge together with valuable background experience on Cooperative System implementation planning and development efforts.

Our core focus is on building capacity for the administration of the systemic risk mandate as set out in the proposed *Capital Markets Stability Act*. We also support federal participation in the Cooperative System, including the provision of federal funding and other support to the Capital Markets Authority Implementation Organization (CMAIO), the multi-jurisdictional interim body responsible for operational aspects of Cooperative System integration.

### **CMSA Administration**

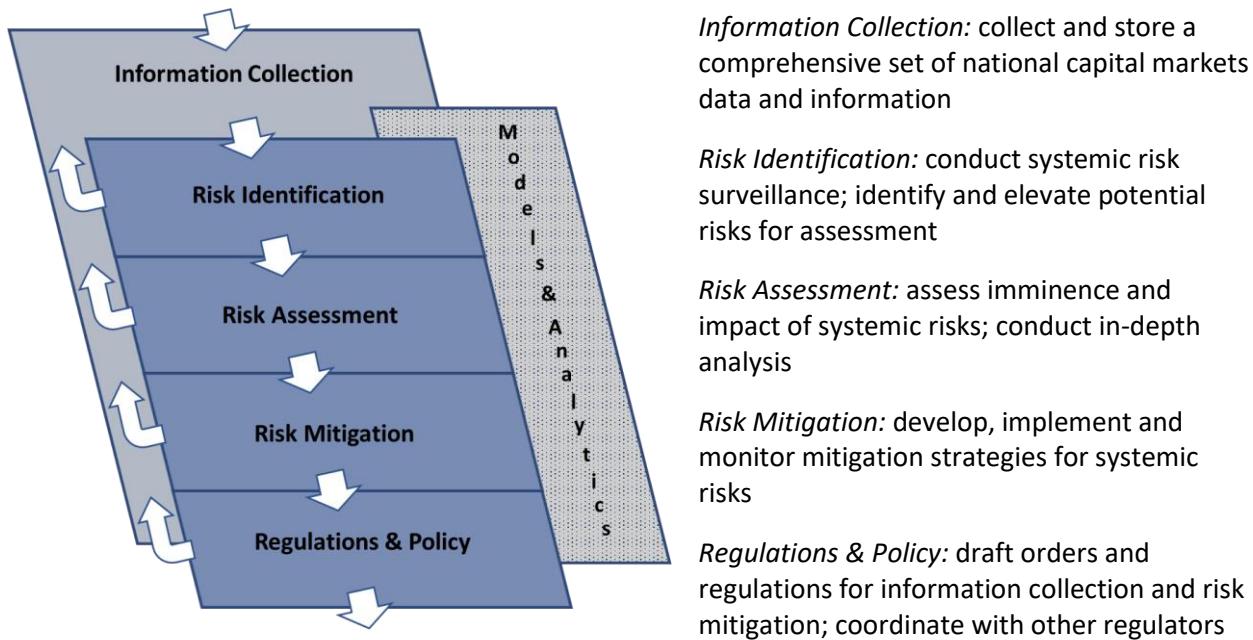
The systemic risk and national data collection provisions of the proposed CMSA are designed to promote and protect the stability of Canada's financial system through the management of systemic risk related to capital markets. The systemic risk mandate as set out in the draft CMSA is to:

- monitor activity in capital markets, including by collecting, aggregating and analyzing information;
- detect, identify and mitigate systemic risk related to capital markets; and
- contribute, as part of Canada's financial regulatory framework, to the stability of the financial system.

The Transition Office is focused on implementation of the CMSA's national information collection and systemic risk provisions. Our work has advanced significantly, and processes are in place to support the initial administration of the CMSA systemic risk mandate. Considerable progress has been made in identifying priority commercial and regulatory data and data gaps, drafting and testing processes, assessing and back-testing indicators and models, and developing initial approaches to regulation.

We are leveraging research and methodologies from international bodies and foreign regulators, learning from what others have already developed successfully and, where appropriate, adopting aspects that are suited to Canada's capital markets. Advancement of our work has benefitted significantly from a network of regulators, central bankers, and academics from around the world who have shown interest in supporting the establishment of a systemic risk mandate for Canada's capital markets.

Our implementation approach addresses five broad functional elements necessary to administer the systemic risk mandate under the CMSA. The diagram below depicts the five elements, and the flows and interactions between them as part of an integrated framework:



The following outlines the status of our work and progress during 2020-2021 for each of the functional elements.

Information Collection
<p><i>Goals:</i></p> <p>Initial data and analytic capabilities are in place utilizing publicly available data sources and commercial subscription services. Data gaps are documented and prioritized.</p>
<p><i>Status:</i></p> <p>A robust technical environment has been established, including commercial data platforms that are providing an array of current and historical data to support research and monitoring needs. We are working closely with our commercial data providers to fully leverage their products for our purpose.</p> <p>A catalogue containing over 200 groupings of existing capital markets data from Canadian regulators and other agencies is fully developed and updated semi-annually (2020-2021 updates were deferred due to the pandemic). Data gaps have been identified and prioritized.</p>

<p>Procedures for making requests for information under the CMSA have been developed, and draft information requests for priority data are underway.</p> <p>Capital markets are being monitored through tracking of an extensive set of statistics on Canada's equity, fixed income, investment fund, foreign exchange, precious metals, and commodities markets, using public and commercial data.</p>
<p><i>2020-2021 Progress:</i></p> <p>A preliminary analysis was completed for two industry sectors involved in managing significant amounts of financial assets on behalf of Canadians. An annual analysis of financial benchmarks used in Canada's capital markets was also updated.</p> <p>Work began on developing an information request for high priority capital markets data that is not currently available elsewhere. This comprehensive process involves assessing approaches and experiences from other jurisdictions, defining objectives and requirements for the data being requested, and identifying various classes of market participant the request would apply to. A pilot of a commercial application that would allow external organizations to securely file data was also conducted.</p> <p>We continued to develop and extend the capabilities of our commercial data platforms, including automating data feeds into our systemic risk indicator suite.</p>
<p><b>Risk Identification</b></p>
<p><i>Goals:</i></p> <p>Risk indicators and models appropriate to Canadian capital markets are identified and in development. Preliminary analysis of priority risk topics is well-advanced and emerging trends are monitored.</p> <p><i>Status:</i></p> <p>Structured processes for risk identification have been developed, based on a risk register framework consistent with International Organization of Securities Commissions' principles, and approaches used by various regulators in other jurisdictions. A preliminary risk register for potential systemic risks is in place and being maintained.</p> <p>An initial series of risk indicators, market statistics, metrics, risk indices, and other models have been developed using Canadian data; these diagnostic tools are being continually refined and additional tools developed.</p> <p>Deeper analysis of various priority risk topics is progressing. For many of these risks, access to additional data will be needed to complete a full assessment.</p>

*2020-2021 Progress:*

Work continued towards building out a series of Canadian systemic risk indicators and models using public and commercial data. An analysis of each of the approximately 60 risk indicators in our preliminary suite was completed. This included examining the performance of each indicator during previous periods of financial stress such as the dot-com bubble in the late 1990's and the 2008 global financial crisis.

Capital markets were closely monitored through the COVID-related stresses during Spring 2020, and these stresses were further assessed over the course of the year to better understand where they originated and how they transmitted between markets.

Briefings on a number of key capital markets risk topics were developed and presented as part of interactive workshops with officials from Finance Canada.

**Risk Assessment**

*Goals:*

Processes are established to assess the imminence of capital markets risks and estimate the potential impact on the Canadian economy.

*Status:*

High-level risk assessment procedures have been drafted based on approaches advanced by other agencies including the IMF. The focus of the complete assessment is to estimate the likelihood of the risk occurring and to confirm that the risk could plausibly threaten the Canadian economy. These procedures will be tested and further refined.

*2020-2021 Progress:*

The risk assessment process was further developed with the inclusion of a leading GDP-at-risk model using Canadian data. This model will be used as one measure of the possible negative effects of a risk to Canada's economy. The development of a preliminary Canadian financial stress index and the refinement of a recession probability model were also completed.

Testing of draft risk assessment procedures was deferred, as work to assess COVID-related market stresses was prioritized.

**Risk Mitigation**

*Goals:*

Processes are established for designation of systemically important benchmarks, systemically important products (securities or derivatives), and systemically risky practices.

<p><i>Status:</i></p> <p>A draft risk mitigation framework is in place, designed to:</p> <ul style="list-style-type: none"><li>• identify possible mitigation strategies;</li><li>• assess these strategies individually and in combination;</li><li>• recommend the most effective strategy;</li><li>• coordinate regulatory responses with other agencies; and,</li><li>• monitor the effectiveness of regulatory responses and assess whether regulatory treatment is still required.</li></ul> <p>Detailed procedures for assessing systemic importance of benchmarks and products have been developed. Procedures for assessing systemic riskiness of practices will be developed.</p>
<p><i>2020-2021 Progress:</i></p> <p>Provisional testing of the systemic importance of two classes of product was completed. Other process and testing work planned for 2020-2021 was deferred as a result of COVID-related priorities.</p>
<p><b>Regulation-Making &amp; Policy</b></p>
<p><i>Goals:</i></p> <p>CMSA regulation-making process is documented and possible initial regulations are identified for development.</p>
<p><i>Status:</i></p> <p>Processes for making information requests and adopting regulations under the CMSA have been drafted. These draft processes will be further refined in consultation with Government of Canada officials.</p>
<p><i>2020-2021 Progress:</i></p> <p>Customized processes were developed for making information requests, designating trade repositories and issuing urgent orders by an interim federal authority. These processes accommodate distinct procedural mechanisms for CMSA administration by an interim authority in areas that would differ from administration under the Cooperative System. Interim authority processes for other areas of CMSA administration were also completed.</p>

### ***Capital Markets Authority Implementation Organization***

The Capital Markets Authority Implementation Organization (CMAIO), the multi-jurisdictional interim body responsible for operational aspects of the Cooperative System integration, has completed all the integration work that can be performed until the Cooperative System enabling legislation is further advanced by the participating governments. Recognizing this, the CMAIO board of directors decided to pause its operations on March 31, 2021, and preserve its work product for reactivation when there is greater certainty around Cooperative System launch timelines.

The Transition Office makes federal funding available to CMAIO, and also provides CMAIO with office space and certain administrative support services at no cost. At March 31, 2021, CMAIO has received aggregate funding of \$27.4 million from a \$30 million funding agreement. With CMAIO not being operational, its ongoing funding needs have been reduced significantly and the funding agreement no longer suits the nature and scope of its activities. As a result, the Transition Office and CMAIO have agreed to terminate the funding agreement and replace it with a new funding agreement. The new funding agreement became effective July 1, 2021, and makes aggregate funding of \$350,000 available to CMAIO for its ongoing costs. Funding of \$50,000 was provided under the original agreement from April 1, 2021 to June 30, 2021. No further funding is available under the original funding agreement.

Further information on CMAIO's activities and progress is contained in its annual report, available at [cmaio.ca](http://cmaio.ca).

### ***Other Cooperative System Implementation Support***

The Transition Office provides the services of the Implementation Lead to assist the team of government officials and the committee of executives from regulators of the Participating Jurisdictions on matters related to the integration of existing regulatory operations into a single regulatory authority. The Transition Office also contributes to those integration areas having interdependencies with CMSA administration.

### ***COVID-19 Impact***

Transition Office staff have worked remotely from home since March 2020. Our cloud-based technical infrastructure and robust video-conferencing capabilities enabled a seamless transition, and our work was uninterrupted. We continue to monitor information from public health authorities, and expect to begin transitioning back to our office facilities once second vaccine doses are more fully deployed.

## OUTLOOK

The Participating Jurisdictions announced in May 2018 that the Cooperative System would not be operational in Fall 2018, as previously planned. The Participating Jurisdictions remain committed to the Cooperative System and continue to work on the legislative framework for its implementation, although there is currently no timetable for launch.

Federal Budget 2021 included proposed additional Transition Office funding of \$12 million. The House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, the *Budget Implementation Act 2021, No. 1*. A government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office expects to be able to operate until March 2022 using existing funding but, if no additional funding is provided in 2021-2022, would have to begin to wind down operations at that time.

In 2021-2022, the Transition Office will continue to focus on building capacity for the administration of the systemic risk mandate under the proposed *Capital Markets Stability Act*, while also supporting federal participation in the Cooperative System. We have a strong core team in place, dedicated to enhancing the stability and integrity of Canada's capital markets.

## FINANCIAL HIGHLIGHTS

The following table summarizes key financial highlights for the Transition Office for the twelve months ended March 31, 2021, together with comparative budget and prior year figures.

<i>(in thousands of dollars)</i>	2021 Budget	2021 Actual	2020 Actual
Operating expenses	5,849	<b>5,278</b>	5,077
Funding of Capital Markets Authority			
Implementation Organization	4,500	<b>7,046</b>	4,436
Total expenses	10,349	<b>12,324</b>	9,513
Interest income	115	<b>103</b>	540
Net results of operations	(10,234)	<b>(12,221)</b>	(8,973)
Cash used in operating activities		<b>(12,121)</b>	(8,909)
Acquisition of tangible capital assets		<b>(18)</b>	(15)
Decrease in cash and cash equivalents		<b>(12,139)</b>	(8,924)
Cash and cash equivalents	<b>8,508</b>	20,647	
Net financial assets	<b>7,987</b>	20,227	
Accumulated surplus	<b>8,214</b>	20,435	

### Fiscal 2020-2021 Review

The Transition Office is preparing for the successful administration of the systemic risk mandate under the proposed federal *Capital Markets Stability Act*, and supporting Finance Canada on matters related to the CMSA and the Cooperative System. The Transition Office also provides funding and other support to the Capital Markets Authority Implementation Organization, a not-for-profit corporation responsible for operational aspects of Cooperative System integration.

We have a team of risk specialists and legal staff focused on building capacity for the administration of the CMSA systemic risk mandate. Our objective is to establish processes and capabilities to address priority data requirements and be prepared to respond effectively to potential systemic risks once the CMSA is adopted.

### **Net Results of Operations vs. Fiscal 2019-2020 Actual**

Transition Office expenses for the year ended March 31, 2021 were \$12,324,000, up from \$9,513,000 for the same period a year ago. The primary factor in the increase was higher CMAIO funding requirements due to its decision to pause operations on March 31, 2021. Transition Office operating expenses were also up slightly from the prior year.

Operating expenses increased to \$5,278,000 from \$5,077,000 last year. Higher costs for compensation and benefits and data and technology in the current year were partially offset by reduced costs for travel and consultation and external services.

Compensation and benefits expense was \$3,647,000, up from \$3,306,000 a year earlier. The increase reflects higher staff levels, annual compensation adjustments and an increase in unutilized vacation. The Transition Office averaged 18 full-time equivalent staff positions in fiscal 2021, compared to 16 staff a year ago.

Occupancy expense increased to \$929,000 from the prior year's \$918,000. Lease rates increased in the current year, partially offset by slightly lower landlord operating costs and reduced office maintenance costs.

External services expense decreased to \$345,000 from \$379,000 in the previous year, with staff recruiting costs being lower in the current year.

Travel and consultation, data and technology, and administration expenses totalled \$329,000, down from \$441,000 a year ago. Travel activities were curtailed significantly as a result of COVID-19, while administration costs were also lower due to work-from-home arrangements during the year. Partially offsetting, data and technology costs increased as our analytic capabilities were further expanded with additional commercial data subscriptions.

Amortization expense of \$28,000 was down slightly from last year's \$33,000, the result of lower capital expenditures.

Funding of \$7,046,000 was provided to CMAIO, up from \$4,436,000 a year earlier. The Transition Office funded CMAIO's operating costs for the year plus costs of pausing its operations at March 31, 2021, including contractual severance paid to staff for whom roles could not be found at participating provincial regulators.

Interest income fell to \$103,000 from \$540,000 a year ago. The decrease is primarily due to the significant decline in interest rates from a year earlier. Lower average cash balances compared to the prior year were also a factor.

The net result of operations for the year was a \$12,221,000 deficit. The Transition Office closed the year with an accumulated surplus of \$8,214,000 at March 31, 2021. The previous year's net results of operations was a deficit of \$8,973,000 and an accumulated surplus of \$20,435,000 at March 31, 2020.

### **Net Results of Operations vs. Fiscal 2020-2021 Budget**

Total expenses of \$12,324,000 for the year ended March 31, 2021 were 19% above budget expenses of \$10,349,000. CMAIO funding for the year exceeded budget as the result of its decision to pause operations on March 31, 2021. This was partially offset by Transition Office operating expenses being below budget for the year.

Transition Office operating expenses of \$5,278,000 were 10% lower than budget of \$5,849,000. An unutilized contingency amount was the largest factor, with travel and consultation, external services and occupancy costs also being under budget.

Compensation and benefits expense of \$3,647,000 was 2% above the \$3,570,000 budgeted. An increase in unutilized vacation pushed costs over budget for the year.

Occupancy expense of \$929,000 was 5% below the \$983,000 budget, the result of lower than expected office maintenance and landlord operating costs.

External services expense was \$345,000, 28% less than the budget of \$478,000. External services utilization was lower than anticipated due to the delay in Cooperative System launch timelines.

Travel and consultation, data and technology, and administration expense totalled \$329,000, 32% below the \$481,000 budget amount. Lower travel and consultation expense was the largest factor. The budget assumed there would be a gradual return to out-of-town travel activities in the second half of the year, while travel activities remained curtailed for the entire year due to the pandemic. Administration costs were below budget due to work-from-home arrangements. Data and technology costs were lower as we did not add as much commercial data capacity as planned.

Amortization expense of \$28,000 was 24% lower than the \$37,000 budget as the result of lower than planned capital expenditures.

The Transition Office operating expense budget for the year included a \$300,000 contingency that was not utilized.

Funding of \$7,046,000 was provided to CMAIO, 57% above the \$4,500,000 budgeted. The Transition Office funded CMAIO's operating costs for the year plus unbudgeted costs of pausing its operations, including contractual severance paid to staff for whom roles could not be found at participating provincial regulators.

Interest revenue of \$103,000 was below the budget of \$115,000. Average cash balances were lower than the budget projection for the year.

### **Cash Flow**

Cash decreased by \$12,139,000 in the twelve months ended March 31, 2021, compared with a \$8,924,000 decrease for the same period last year.

Cash of \$12,121,000 was utilized for operating activities during the year, reflecting the year's operating deficit net of movements in non-cash items. Cash utilized for operating activities was \$8,909,000 a year earlier. Higher CMAIO funding requirements related to its pause of operations was the primary contributor to the increased cash utilization.

Cash paid for capital asset acquisitions was \$18,000 for the year compared with \$15,000 in the prior year.

The Transition Office closed the year with a \$8,508,000 cash position, down from \$20,647,000 a year ago.

### **Financial Position**

The Transition Office had net financial assets of \$7,987,000 at March 31, 2021, a decrease from \$20,227,000 a year earlier. Net financial assets comprise cash and cash equivalents of \$8,508,000 and amounts receivable of \$111,000, offset by accounts payable and accrued liabilities of \$632,000.

Together with non-financial assets of \$227,000, the Transition Office closed the year with an accumulated surplus of \$8,214,000, down from \$20,435,000 at the end of the previous year.

Federal Budget 2021 included proposed additional Transition Office funding of \$12 million. The House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, the *Budget Implementation Act 2021, No. 1*. A government motion to restore the funding provision at the committee report stage was defeated in Parliament. The Transition Office expects to be able to operate until March 2022 using existing funding but, if no additional funding is provided in 2021-2022, would have to begin to wind down operations at that time.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of the Canadian Securities Regulation Regime Transition Office (the Transition Office) in accordance with Canadian public sector accounting standards, and other financial information in this annual report, is the responsibility of the Transition Office's management. Where required, management's best estimates and judgements have been applied in the preparation of these financial statements.

Management fulfils its financial reporting responsibilities by maintaining financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded, proper records are maintained, accurate financial information is prepared on a timely basis, and the Transition Office complies with all statutory requirements.

These financial statements have been audited by the Auditor General of Canada, and the report is included herein.



Douglas M. Hyndman  
*Chair and Chief Executive Officer*



Jay G. Whitwham  
*Chief, Finance and Administration*

Vancouver, Canada

July 27, 2021



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

## INDEPENDENT AUDITOR'S REPORT

To the Canadian Securities Regulation Regime Transition Office and the Minister of Finance

### *Opinion*

We have audited the financial statements of the Canadian Securities Regulation Regime Transition Office (the Transition Office), which comprise the statement of financial position as at 31 March 2021, and the statement of operations and accumulated surplus, statement of change in net financial assets and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Transition Office as at 31 March 2021, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Transition Office in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the financial statements, which indicates that the Transition Office has requested additional funding which has not been authorized. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Transition Office's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Transition Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Transition Office or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Transition Office's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transition Office's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Transition Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Transition Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Lana Dar, CPA, CA  
Principal  
for the Auditor General of Canada

Vancouver, Canada  
27 July 2021

## FINANCIAL STATEMENTS AND NOTES

### Statement of Financial Position

*As at March 31*

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<i>(in thousands of dollars)</i>	<b>2021</b>	<b>2020</b>
<b>Financial Assets</b>		
Cash and cash equivalents (note 3)	<b>8,508</b>	20,647
Amounts receivable	<b>111</b>	115
<b>Total financial assets</b>	<b>8,619</b>	20,762
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<b>632</b>	535
<b>Total liabilities</b>	<b>632</b>	535
<b>Net financial assets</b>	<b>7,987</b>	20,227
<b>Non-financial assets</b>		
Tangible capital assets (note 6)	<b>25</b>	35
Prepaid expenses	<b>202</b>	173
<b>Total non-financial assets</b>	<b>227</b>	208
<b>Accumulated surplus</b>	<b>8,214</b>	20,435

Contractual obligations (note 9)

*The accompanying notes form an integral part of these financial statements.*

Approved by:



Douglas M. Hyndman  
*Chair and Chief Executive Officer*

## Statement of Operations and Accumulated Surplus

*For the year ended March 31*

<i>(in thousands of dollars)</i>	2021 Budget	2021 Actual	2020 Actual
<b>Operating expenses</b>			
Compensation and benefits	3,570	<b>3,647</b>	3,306
Occupancy	983	<b>929</b>	918
External services	478	<b>345</b>	379
Data and technology	310	<b>291</b>	216
Travel and consultation	125	<b>14</b>	179
Administration	46	<b>24</b>	46
Amortization	37	<b>28</b>	33
Contingency	300	-	-
<b>Total operating expenses</b>	<b>5,849</b>	<b>5,278</b>	5,077
<b>Funding of Capital Markets Authority Implementation Organization (note 5)</b>			
<b>Implementation Organization (note 5)</b>	<b>4,500</b>	<b>7,046</b>	4,436
<b>Total expenses</b>	<b>10,349</b>	<b>12,324</b>	9,513
<b>Revenue</b>			
Interest income	115	<b>103</b>	540
<b>Net results of operations</b>	<b>(10,234)</b>	<b>(12,221)</b>	(8,973)
<b>Accumulated surplus at beginning of year</b>	<b>20,435</b>	<b>20,435</b>	29,408
<b>Accumulated surplus at end of year</b>	<b>10,201</b>	<b>8,214</b>	20,435

*The accompanying notes form an integral part of these financial statements.*

## Statement of Change in Net Financial Assets

*For the year ended March 31*

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<i>(in thousands of dollars)</i>	2021 Budget	2021 Actual	2020 Actual
<b>Net results of operations</b>	(10,234)	<b>(12,221)</b>	(8,973)
Acquisition of tangible capital assets	(60)	<b>(18)</b>	(15)
Amortization of tangible capital assets	37	<b>28</b>	33
Acquisition of prepaid expenses	(173)	<b>(202)</b>	(173)
Use of prepaid expenses	173	<b>173</b>	142
 <b>Decrease in net financial assets</b>	(10,257)	<b>(12,240)</b>	(8,986)
 <b>Net financial assets at beginning of year</b>	20,227	<b>20,227</b>	29,213
 <b>Net financial assets at end of year</b>	9,970	<b>7,987</b>	20,227

*The accompanying notes form an integral part of these financial statements.*

## Statement of Cash Flow

*For the year ended March 31*

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<i>(in thousands of dollars)</i>	<b>2021</b>	2020
<b>Operating activities</b>		
Cash received from:		
Interest on deposits	103	540
Total cash received	<b>103</b>	540
Cash paid for:		
Compensation and benefits	(3,569)	(3,187)
Facilities, services and supplies	(1,609)	(1,826)
Funding of Capital Markets Authority Implementation Organization (note 5)	(7,046)	(4,436)
Total cash paid	<b>(12,224)</b>	(9,449)
<b>Cash used in operating activities</b>	<b>(12,121)</b>	(8,909)
<b>Capital activities</b>		
Acquisition of tangible capital assets	(18)	(15)
<b>Cash used in capital activities</b>	<b>(18)</b>	(15)
<b>Decrease in cash and cash equivalents</b>	<b>(12,139)</b>	(8,924)
<b>Cash and cash equivalents at beginning of year</b>	<b>20,647</b>	29,571
<b>Cash and cash equivalents at end of year</b>	<b>8,508</b>	20,647

*The accompanying notes form an integral part of these financial statements.*

## Notes to the Financial Statements

March 31, 2021

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### 1. Nature of operations

The Canadian Securities Regulation Regime Transition Office (the “Transition Office”) was created under the *Canadian Securities Regulation Regime Transition Office Act* (the “Act”), which came into force on July 13, 2009. The purpose of the Transition Office is to assist in the establishment of a Canadian securities regulation regime and a Canadian securities regulatory authority.

The Government of Canada is one of the Participating Jurisdictions that are signatories to the Memorandum of Agreement Regarding the Cooperative Capital Markets Regulatory System (the “MOA”). The Transition Office is helping develop the capital markets regulatory capabilities falling within the jurisdiction of the Government of Canada and supporting federal participation in the Cooperative Capital Markets Regulatory System (“Cooperative System”). This includes:

1. Preparing for the successful administration of the systemic risk and national data collection provisions of the proposed federal *Capital Markets Stability Act*.
2. Advising the Government of Canada on matters related to the *Capital Markets Stability Act* and the Cooperative System.
3. Supporting other aspects of Cooperative System implementation.

Federal Budget 2021 included proposed additional Transition Office funding of \$12 million. The House of Commons Standing Committee on Finance voted to remove the proposed funding from Bill C-30, the *Budget Implementation Act 2021, No. 1*. A government motion to restore the funding provision at the committee report stage was defeated in Parliament. There can be no assurance that the proposed funding would be reintroduced by the government, or that it would be approved by Parliament. The Transition Office expects to be able to operate until March 2022 using existing funding but, if no additional funding is provided in 2021-2022, would have to begin to wind down operations at that time. The above factors cause material uncertainty that may cast significant doubt about the Transition Office’s ability to continue as a going concern. These financial statements do not include any adjustments to the carrying value of the assets and liabilities, or the reported revenues and expenses, that might be necessary if the Transition Office does not receive additional funding.

The Government of Canada is entitled to any residual interest in the Transition Office after payment of its debts and liabilities.

## **2. Significant accounting policies**

### **(a) Basis of presentation**

These financial statements are prepared in accordance with Canadian public sector accounting standards.

### **(b) Government of Canada funding**

Funding provided by the Government of Canada under the Act is recognized in the Statement of Operations and Accumulated Surplus in the period when the funding is authorized by the Minister of Finance. Refer to note 4.

### **(c) Operating expenses**

Operating expenses of the Transition Office are recorded when goods have been received and when services have been rendered.

### **(d) Funding of Capital Markets Authority Implementation Organization**

Funding provided to the Capital Markets Authority Implementation Organization is recognized in the Statement of Operations and Accumulated Surplus in the period when the funding is authorized by the Transition Office and all eligibility criteria have been met. Refer to note 5.

### **(e) Cash and cash equivalents**

Cash and cash equivalents include cash in bank and interest-bearing deposits. There is no risk of a change in value. Refer to note 3.

### **(f) Financial instruments**

#### i) *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

#### ii) *Amounts receivable*

Amounts receivable include GST/HST rebates receivable and amounts receivable from the Capital Markets Authority Implementation Organization for costs paid on its behalf. Amounts receivable from the Capital Markets Authority Implementation Organization are measured at cost.

#### iii) *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within three months of year-end.

**(g) Tangible capital assets**

Tangible capital assets are recorded at acquisition cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Computers (hardware and software)	-	3 years
Telecommunications equipment	-	3 years
Office furniture	-	5 years
Leasehold improvements	-	lesser of lease term or estimated useful life

When conditions indicate that a tangible capital asset no longer contributes to the operations of the Transition Office, its cost is written down to net realizable value.

**(h) Measurement uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and expenses reported in the financial statements. At the time of preparation of these financial statements, management believes the estimates and assumptions to be reasonable. Actual results could differ significantly from those estimated. The most significant management estimate is the useful life of tangible capital assets.

**3. Cash and cash equivalents**

<i>(in thousands of dollars)</i>	<b>2021</b>	<b>2020</b>
Funds on deposit – operating	<b>255</b>	451
Funds on deposit – interest bearing	<b>8,253</b>	20,196
<b>Total cash and cash equivalents</b>	<b>8,508</b>	20,647

The average yield on interest bearing deposits during the year was 0.65% (2020 – 2.15%). There are no restrictions on funds on deposit.

**4. Government of Canada funding**

The Transition Office received no Government of Canada funding during the year or the prior year. Aggregate funding received under the Act since July 2009 totals \$107.5 million. Also, see Note 1.

## 5. Funding of Capital Markets Authority Implementation Organization

The Capital Markets Authority Implementation Organization (“CMAIO”) is a not-for-profit entity incorporated on behalf of the Participating Jurisdictions to serve as an interim body until the establishment of the Capital Markets Regulatory Authority (“CMRA”) as proposed under the MOA. In August 2016, the Transition Office entered into a funding agreement whereby it will provide aggregate funding of up to \$30.0 million to support CMAIO’s operations prior to the CMRA being established. Cumulative funding of \$27.4 million has been provided to CMAIO as at March 31, 2021.

The Transition Office also makes office space available and provides administrative support services to CMAIO at no cost under the funding agreement. Contributed goods and services are not reflected in these financial statements as the fair value of the goods and services cannot be reasonably estimated.

Delays in the development of legislation to create the Cooperative System have led CMAIO to pause its operations effective March 31, 2021. With CMAIO not being operational, its ongoing funding needs have been reduced significantly and the funding agreement no longer suits the nature and scope of its activities. As a result, the Transition Office and CMAIO have agreed to terminate the funding agreement and replace it with a new funding agreement. The new funding agreement became effective July 1, 2021, and makes aggregate funding of \$350,000 available to CMAIO for its ongoing costs. Funding of \$50,000 was provided under the original agreement from April 1, 2021 to June 30, 2021. No further funding is available under the original funding agreement.

## 6. Tangible capital assets

<i>(in thousands of dollars)</i>	Computer & Telecom Equipment	Office Furniture	Leasehold Improver- ments	2021	2020
<b>Cost</b>					
Opening balance	297	104	143	<b>544</b>	529
Acquisitions	18	-	-	<b>18</b>	15
Closing balance	315	104	143	<b>562</b>	544
<b>Accumulated amortization</b>					
Opening balance	264	102	143	<b>509</b>	476
Amortization	27	1	-	<b>28</b>	33
Closing balance	291	103	143	<b>537</b>	509
<b>Net book value</b>	<b>24</b>	<b>1</b>	-	<b>25</b>	35

## **7. Financial risk management**

Financial instruments of the Transition Office include cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities. These financial instruments expose the Transition Office to credit risk and liquidity risk.

### a) Credit risk

Financial instruments that potentially expose the Transition Office to credit risk consist of cash and cash equivalents and amounts receivable. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

#### *Cash and cash equivalents*

The Transition Office’s cash and cash equivalents are held in demand deposits with a major Schedule 1 Canadian chartered bank. Accordingly, the Transition Office is not exposed to significant credit risk. The maximum exposure the Transition Office has to credit risk is the carrying value of cash and cash equivalents.

#### *Amounts receivable*

Given the nature and source of amounts receivable the Transition Office does not consider credit risk to be significant.

### b) Liquidity risk

Liquidity risk is the risk the Transition Office will encounter difficulty in meeting its obligations associated with financial liabilities. The Transition Office’s objective for managing liquidity risk is to manage operations and expenditures within funding provided by the Government of Canada.

Each year, the Transition Office presents information on planned expenditures to the Minister of Finance and requests funding, as necessary, to ensure it has sufficient financial resources to meet obligations that will come due during the year. The Transition Office monitors expenditure commitments for the purpose of ensuring it is capable of discharging its obligations within available funding.

The level of liquidity risk has increased compared to the prior year due to proposed additional funding for the Transition Office not being approved by Parliament, as described in Note 1. The Transition Office expects to be able to operate until March 2022 using existing funding but, if no

additional funding is provided in 2021-2022, would have to begin to wind down operations at that time in order to discharge its remaining obligations.

There has been no change to the level of credit risk compared to the prior year and no changes in risk management practices used by the Transition Office to manage risk.

## **8. Related party transactions**

The Transition Office is related to all Government of Canada departments, agencies, and crown corporations. During the year, the Transition Office received services without charge from the Office of the Auditor General of Canada in the amount of \$98,000 (2020 - \$98,000) for the purpose of auditing the financial statements. The costs of these services provided without charge have not been recognized in the Statement of Operations and Accumulated Surplus.

## **9. Contractual obligations**

The Transition Office has agreements for the lease of office premises and equipment. Under these agreements, the Transition Office is obligated to make the following annual payments:

<i>(in thousands of dollars)</i>	2021-22	2022-23	Total
Lease payments	1,129	845	1,974

Payments noted above include operating costs and property taxes for office premises, which are subject to adjustment annually based on the Transition Office's proportionate share of the actual costs incurred by the landlord.

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